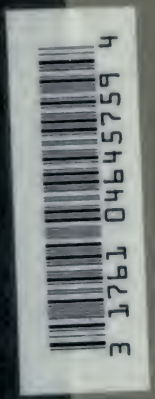

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HOSPITAL INSURANCE

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COMPARISON OF COSTS

IN these articles a comparison is made of the voluntary non-profit Blue Cross system of hospital insurance in Manitoba and the state-run plan operated in Saskatchewan.

In 1951 Blue Cross group coverage for a Manitoba family cost $26.40 in premiums and that was all.

A similar type of coverage in Saskatchewan cost first of all $30. in premiums paid to the Government in the form of a tax. Then an additional sum had to be raised from the people to pay for the large deficit. The amount voted for the hospital plan in 1951 by the Saskatchewan legislature was $9 millions. But a truer figure for the actual operating deficit would be $8,177,765. This was the excess of hospital expenditure over hospital taxes (premiums) as shown at page 86 of the report of the Saskatchewan plan for 1951.

The latest report (1951) on Canadian hospitals prepared and published by the Dominion Bureau of Statistics at Ottawa has come to hand. The reliability of the Bureau's figures will be accepted by everyone and its findings make a complete comparison possible.

* * *

The report shows the amount of money received by Canadian hospitals in 1951 in the form of grants, and the sources from which that money came. The figures for Manitoba and Saskatchewan are reproduced in the following table. It will be noted that the introduction of the Government plan of hospital insurance in Saskatchewan did not put a stop to provincial and municipal grants there.

Grants to hospitals in 1951:

	Manitoba	Saskatchewan
Provincial	$355,000	$296,000
Municipal	420,000	27,000
Other	62,000	.....
Totals	$837,000	$323,000

Thus Manitoba hospitals got $514,000 more in provincial, municipal and "other" grants than did Saskatchewan hospitals. This is a small item in over-all costs. It is too small to support in any important way the claim that heavy Government grants to hospitals in Manitoba are responsible for the low cost of Blue Cross insurance in this province compared with the Saskatchewan state plan.

The point that under the private and voluntary system of hospital insurance in Manitoba the people of this province are paying very much less for coverage than the people of Saskatchewan under the compulsory state plan remains unimpaired by the record on government grants.

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There are other ways the two systems of hospital insurance can be compared besides on the basis of direct premium charges. One of the alternative methods is to compare the actual operating costs of hospital costs in the two provinces. The figures on operating costs are contained in the D.B.S. report.

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In both Manitoba and Saskat-

chewan anyone who is in need of hospital treatment receives it. In Manitoba those who cannot pay their own hospital bills are taken care of just the same as the people in Saskatchewan who are unable to pay their insurance premiums. Thus in both provinces everyone is guaranteed hospital care. The methods differ but the end result is the same.

What does it cost?

The Bureau of Statistics report covers 1951. That year, Manitoba's hospitals had total operating expenses of $8,999-000. The population of the province as shown by the census of the same year was 776,541 persons. By simple division that works out to a cost of $11.60 for each individual in the province.

* * *

That same year, the report shows, the cost of operating Saskatchewan's hospitals was $15,750,000. The population of that province was 831,728 which meant that the cost of operation was $18.90 per head.

It may be argued that the cost of hospital operation and the cost of hospital insurance are not quite the same thing. But is there any real distinction? Is it not evident that for this purpose it makes virtually no difference where the money is obtained?

It may come from insurance premiums, the cash paid by individuals, or from provincial and municipal grants as in Manitoba. Or it may come from provincial taxes and grants as in Saskatchewan. The inescapable fact is that either way it comes from the pockets of the people.

HIGH COST OF STATE SYSTEM

There are several ways of comparing the cost of the voluntary non-profit system of hospital insurance the Blue Cross operates in Manitoba with the state-run plan operated by the C.C.F. Government in Saskatchewan. In the previous article two methods were examined. Both showed essentially the same result, namely that the state-run plan is by far the more expensive.

Members of the Saskatchewan plan in 1951 paid in premiums $6,093,556. This worked out to $7.80 per person insured. But how, it may be asked, could the people of Saskatchewan have got hospital insurance at an average cost of $7.80 a head when it cost $18.90 per head to operate the province's hospitals that year.

The answer is of course that the people of Saskatchewan paid far more than $7.80 per head. For the year 1951 the Saskatchewan plan had the usual very large deficit. The details of revenues and expenditures for the year will be found on page 86 of the annual report of the Saskatchewan Hospital Services Plan for 1951 as issued by Hon. T. J. Bentley, Minister of Health. The main items are shown in the accompanying table.

Saskatchewan Hospital Insurance Plan
Revenues and Expenditures 1951

Hospital expenses 1951		$13,127,979.25
Administration Expenses		
Commission on tax collections	$153,283.87	
Other administration expenses	426,825.52	580,109.39
Total expenditure for 1951		$13,708,088.64
Less revenues		
Hospitalization taxes	6,093,556.30	
Miscellaneous	34,845.55	
Total revenues 1951		$6,128,401.85
Excess of expenditures over hospitalization taxes and other revenues		$7,579,686.79

In addition to the loss shown, there was a deficit item of $598,-078.44 inherited by the plan from its 1950 operations. This brought the total for 1951 to $8,177,-765.23. This is the figure properly used in the comparisons now being made.

It might be agreeable to the people of Saskatchewan to pay more for their hospital services if they got better service than in Manitoba. But this is not the case. By every standard Manitoba's hospital facilities are superior. By every reasonable medical test Manitoba's great teaching hospitals cannot be matched in Saskatchewan.

Why then did the people of Saskatchewan have to pay $18.90 per capita to run their hospitals in 1951 when the people of Manitoba only paid $11.60 per capita?

The answer — and it is attested in the statistics — is that a state system of hospital insurance such as the one in Saskatchewan gives rise to waste and extravagance. As stated here before, the purses of the public are opened by such plans, and like so much other Government spending nobody sees any reason to exert themselves to economize. This point will be fully documented in a later article.

It has been argued that one reason the state scheme is so expensive is that it includes the cost of hospitalizing people who otherwise would not go to hospitals to get needed care because of the heavy financial burden. There is limited real substance in this argument.

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The main reason why hospitals cost more to run under a compulsory system of hospital insurance is that such a system encourages over-use. In short, what happens is that people go into hospitals and stay there just as long as they can simply because it is "free," and not because they actually need hopitalization. It is interesting in this connection to note that the Bureau of Statistics report recently issued and referred to in the previous article shows that the two provinces where hospitals costs are highest are British Columbia and Saskatchewan, the very two where state schemes of hospital insurance are in operation.

That Saskatchewan's hospital population is higher than Manitoba's is shown in the following table, based on D.B.S. figures:

	Man.	Sask.	% Over Man.
Prov. Pop. (1951)	776,541	831,728	7
Av. Daily Hosp. Pop.	3,542	5,404	52

It is also interesting to note a recent news report from British Columbia which stated that a team of management engineers had investigated the B.C. hospital insurance plan. Their report showed that better administration could save $1,035,000 a year and that the staff could be cut from 665 to 223.

There is another important factor in the low cost of hospital insurance in Manitoba. It is the competition that exists between the Blue Cross and the private insurance companies which offer the same coverage. This competition is the ultimate policing factor against waste and extravagance and misuse of hospital resources. The value to the public of competition could hardly be better demonstrated.

* * *

In Manitoba, the Blue Cross at March 16 had 328,943 people covered and the insurance companies more than 80,000. This is a combined coverage of well over half the population of the province.

Competition is keen among the different companies and between them and the Blue Cross. The one that can offer the best service at the lowest premium is the one that gets the business.

Under the voluntary system there is also constant, unremitting pressure on the hospitals to be efficient and to keep costs down. If one hospital gets out of line with others, it suffers in consequence The patients are not wards of the state but are paying their own way—through premiums or otherwise. As with every other business under the voluntary system strong, natural pressures for efficiency and thrift are constantly in operation. Under state hospitalization these natural pressures cease to operate. The hospital has no reason to care how much is spent. Just write out the bill and send it to the Government. And what of the Government? The members of the Government do not pay the bills. Their salaries as cabinet ministers and members of the legislature run on regardless. They merely make out the cheques and send the tax collector out to take the money away from the people. Indeed, the higher the costs go, the greater the waste and the inefficiency, the more likely the public are to hear cabinet ministers boasting of their great hospitalization policy. All too frequently its worth is measured by its cost and the public is deluded into believing that the vast expenditures are evidence of success.

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It is a principle of underwriting that as voluntary hospital insurance is extended in Manitoba per-member costs ought to go down, provided the risk factor is unchanged. It is accepted that when the point is reached where the greater, marginal risk groups begin to be brought in, the per-member cost is likely to turn up again, reflecting the increased use of hospitals. The amount of the changes in either direction cannot be anticipated accurately. However, given the present competition in the private, voluntary field it is estimated to be small.

In Saskatchewan there is no competition. The state has banished it. The Government has a monopoly. Hospitals have no reason to strive for more economical and more efficient operation. As costs go up the bill to the public goes up. Whether it be paid in tax-premiums or from the provincial treasury, it is compulsory either way. The hospitals do not have to worry about it.

The result is inevitable. And it is nowhere more unassailably demonstrated than in the recent D.B.S. report which shows that it cost $11.60 per person to operate Manitoba's hospitals in 1951 compared with $18.90 per head of population to operate Saskatchewan's.

SOURCES OF WASTE

The cost of operating hospitals in Saskatchewan in 1951 was 63 per cent higher than in Manitoba, calculated on a per capita basis. This is shown in the preliminary annual report of Canadian hospitals for 1951 issued recently by the Bureau of Statistics at Ottawa. The report, which was referred to in a previous article, gives revenues and expenditures of hospitals in all provinces for that year. The provinces where the costs of operation were highest were Saskatchewan and British Columbia, the only two which have compulsory systems of hospital insurance.

For Manitoba the cost worked out at $11.60 per head of population. In Saskatchewan on the other hand expenditures by hospitals amounted to $18.90 per head. This is a startling difference. What is the reason for it? In an earlier article the reason given was that the state system of hospital insurance in Saskatchewan opened the purses of the public and, like so much other Government spending, nobody has any incentive to economize. A glance at the annual report of the Saskatchewan plan for 1951 will illustrate this in finer detail.

Administration expenses of the system for the year are shown in statement C2. They totalled $580,109. Included in the total was an item marked "commission on tax collections." It amounted to $153,283. This is explained at page three of the report. There it is stated that a certain percentage of the hospitalization tax is paid by the Government to agencies which collect this money from the public. For the year 1951 the rate was three per cent on the first $100,000 and two and one-half per cent on everything above this amount.

* * *

This item is important for reasons besides its dollars and cents significance. For it is something that could be avoided if there existed genuine incentives to avoid waste and to practise normal economies in administration. There is no comparable item in Manitoba. Premiums are paid directly to the Blue Cross or to the insurance company concerned. Those who want the service exert themselves to pay for it; and for the different insurers there is always the incentive to reduce operating expenses so as to be

able to offer the [illegible]e at less money. Such in[illegible]s vanish under state compulsory hospital insurance.

The other $426,825 of administration expenses for the Saskatchewan compulsory scheme of hospital insurance in 1951 included things like salaries, publicity, rent and so on. On the whole the cost of administering the Saskatchewan plan is not greatly out of line with Blue Cross costs in Manitoba. This however is not the point. The point is that in Manitoba the cost of operating the Blue Cross and the plans of the various insurance companies is paid out of the money received in premiums by insured men and women and their families. Not one cent comes from the provincial treasury to pay these operating expenses. Once the premium is paid the matter is ended. There are no additional calls on the persons enrolled either directly or through public moneys.

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In Saskatchewan in 1951, as now, it was quite the opposite. The people of the province paid into the state-run system of hospital insurance $6,093,556 in tax-premiums. But, as shown earlier, hospitalization costs alone amounted to $13,127,979. Obviously premiums did not pay half this cost. So the money to operate the compulsory plan had to come from the purses of the public through the grant from the provincial treasury. It was included in the $9 millions voted to the hospital insurance plan by the Saskatchewan legislature (page 87 annual report for 1951).

But it is not in the cost of administration only that the compulsory schemes lose such large sums as those indicated for Saskatchewan and British Columbia by the Bureau of Statistics report. The larger waste normally occurs in the hospitals themselves. Individuals see no reason whatever to limit their demands for hospital services to needs, and abuse becomes commonplace. Hospitals also find it to their financial advantage to encourage more patient days. This is demonstrated in a statement at page four of the report of the Saskatchewan plan for 1951. Referring to the method of paying hospitals in the three years 1948 to 1950, the report says: "Moreover, inclusive per diem rates (the basis used) when applied to such a large percentage of patients, created an incentive to overcrowd hospitals because a drop in patient occupancy meant a corresponding decrease in hospital revenue."

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In other words hospitals were keeping patients as long as they could, regardless of whether they were in need of hospitalization or not, because the bill is paid by the Provincial Government. It became profitable to the hospitals to hang on to inmates. This is easier to do when the patient has no financial incentive to limit his stay. Modifications in the Saskatchewan plan's system of paying hospitals took place effective at the start of 1951. But the effect would be to limit this kind of abuse, not to eliminate it, nor to prevent similar extravagances elsewhere in the plan's operation. That the waste was not stopped is attested by the Bureau of Statistics report showing the expenditures of Saskatchewan hospitals in 1951.